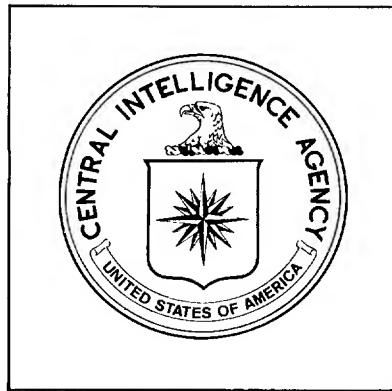


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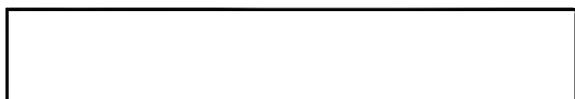


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STAFF NOTES:

Middle East Africa South Asia

State Dept. review completed



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Iran*Economic Measures*

Recent measures by the Shah to lower prices, widen industrial ownership through sale of stock to workers, and improve income distribution by tax reform are calculated to appeal to Iran's low and middle income urban populace. The price rollbacks on hundreds of items in the last few weeks appeal particularly to middle income urban workers confronted with inflation rates exceeding the current national average of about 25 percent a year.

At the same time, the Shah risks alienating the business and well-to-do classes, which will bear the brunt of the new programs. Tehran's business community already is upset as a result of the harsh anti-inflation actions taken by the government. Thousands of shopkeepers and businessmen--including several prominent industrialists--have been detained or jailed on charges of "profiteering."

In the wake of the often arbitrary price rollbacks, more and more shops and firms face the prospect of operating at a loss. Several have closed their doors, and Iranian importers reportedly have begun canceling orders. These actions undoubtedly will result in further shortages and higher inflation, raising the prospect of even stronger counteraction by the government.

Industrialists also are confronted with a weakening of their ownership position. In attacking what he termed a growing "industrial feudalism," the Shah has indicated that some 320 large manufacturing units must sell 49 percent of their shares over the course of the next three years.

The tax reform package will take a larger bite from business and higher income groups. While many companies and most individuals previously escaped taxation

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because of laxity or loopholes in enforcement, the Shah now has strengthened the tax enforcement machinery and probably will deal harshly with those caught violating the new tax laws.

The altered profit-tax-ownership position probably will give the investing class some second thoughts about pouring new money into the economy. Some private foreign firms already have indicated concern about investing in Iranian joint ventures.

Considering the profit potential of Iran's burgeoning economy and the unwillingness or inability of the business groups to challenge the Shah, these Iranians will undoubtedly adjust and make the best of the situation. The new programs, however, will place new strains on an economy already having difficulty adjusting to the vast new spending of oil revenues.

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Kenya*Press Attacks on Kenyatta Family Cause Stir*

The US embassy in Nairobi reports that a large number of politically aware Kenyans have read a series of articles strongly critical of President Kenyatta and his family that appeared recently in the *Sunday Times* of London--despite a ban on the sale of the paper.

The three-part series reviews again the murder of regime critic J. M. Kariuki last March, asserting that Kenyatta gave the go-ahead for the murder because Kariuki was on the verge of publishing an exposé of the Kenyatta family and other wealthy Kenyans. The major focus of the series, however, is a detailed review of land acquisitions and other business dealings by various members of what the paper calls the "Royal Family"--especially Kenyatta's wife Mama Ngina. Some Kenyans knew of or suspected some of these shady practices, but the careful research and systematic presentation of the articles appears to have had a considerable impact.

The long range significance of the *Sunday Times* articles is difficult to gauge, however. Kenyatta's tough tactics against the opposition will probably be sufficient to keep most local critics at bay, but dissident backbenchers may attempt to take advantage of the revelations when parliament reconvenes on September 30. The *Sunday Times* series will probably intensify opposition to former Foreign Minister Njoroge Mungai, a Kenyatta family member whose attempt to make a political comeback is reportedly being aided by the President. Moreover, the series may make it difficult for Kenyatta's relatives to retain their entrenched economic position after his departure from the political scene.

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Bangladesh*A Balanced Foreign Policy*

The new government continues to pursue the balanced foreign policy launched after last month's coup, when President Mushtaque called for "friendship with all nations," especially with Bangladesh's closest neighbors. Dacca has been following a cautious and pragmatic course of courting Pakistan and China, which had limited contact with former president Mujib's regime, while trying not to antagonize India and the Soviet Union, which had close ties with Mujib. So far, this approach seems to be meeting with some success.

The coup last month set the stage for better relations between Bangladesh and Pakistan. A drive to improve relations had been stalemated in part by Mujib's unwillingness to compromise on his differences with Islamabad. Shortly after the coup, Mushtaque wrote to Prime Minister Bhutto saying that he looked forward to a "new chapter" in relations between the two countries.

Dacca considers Pakistani friendship necessary if it is to obtain good will and economic aid from China and additional assistance from other Islamic states. Dacca also recognizes it needs Bhutto's cooperation if there is to be progress toward resolving issues remaining from the division of Pakistan in 1971, such as the allocation of undivided Pakistan's assets and liabilities.

The Pakistanis, for their part, have been sympathetic to the new Dacca regime. Islamabad, at least at first, viewed the new government--with its early emphasis on the Islamic nature of the state--as a departure from Mujib's secular, pro-Indian regime. Pakistan was the first country to recognize the Mushtaque government and pressed other countries, especially the Islamic states and

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China, to follow its lead. Islamabad continues to view the coup as a favorable development even though the new government has backed away from its early indications that it would officially designate Bangladesh an "Islamic republic."

The Indians were clearly shaken by the events in Dacca. Despite the growth of economic and political problems between Dacca and New Delhi since India secured the independence of Bangladesh in 1971, Mujib continued to regard India as his closest ally, and New Delhi was assured of considerable leverage in Dacca.

Mushtaque and the military officers who back him are keenly aware of the need to retain Indian good will, and the government has made clear moves in that direction. Dacca realizes that India may still be tempted to intervene in Bangladesh if Prime Minister Gandhi decides India's interests require such a move. Bangladesh is also aware of Indian suspicions that the new regime's policy will be less favorable to New Delhi. It was with India in mind that the Dacca government backed away from its initial move to designate Bangladesh an Islamic republic. Since then Mushtaque has sent friendly and reassuring messages to Prime Minister Gandhi, including specific confirmation that the bilateral treaty of friendship is still a cornerstone of Bangladesh's foreign relations. The Indians, for their part, will continue to scrutinize the new government's moves closely but appear to be trying to retain good relations with Dacca for the present.

The new Bangladesh regime has been striving harder than its predecessor to improve relations with Peking. China, which had not recognized the Mujib government, extended recognition to the new regime this week. The Bengalees are hoping for Chinese aid and more trade, and they see closer ties to the Chinese as a way to achieve

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more balanced relations with New Delhi and Moscow. They have also emphasized their desire for continued warm ties to the US.

Dacca's relations with the Soviets declined slightly during the last year or so of the Mujib government, and they are likely to grow cooler under the new regime, especially in view of the prospect of closer Chinese-Bengalee ties. Nevertheless, the Bengalees undoubtedly hope they can keep on relatively good terms with the Soviets and will probably make efforts to reassure them. Moscow probably sees the coup in Dacca and Peking's recognition of the new government as a setback to Soviet and Indian interests. Moscow, however, has made clear its willingness to continue to deal with the new leader.

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